



Chapter 8

The Enterprise and Its Finances

Secord and Hakim in 1983 founded Stanford Technology Trading Group International (STTGI).¹ Hakim was chairman of the board. Secord was president. STTGI was wholly controlled by them. In the fall of 1984, North introduced Secord to contra leader Adolfo Calero to assist Calero in the purchase of arms, using the proceeds of a contribution from Saudi Arabia.

¹ STTGI is distinct from Stanford Technology Corporation ("STC"), founded in 1974 by Hakim. Hakim and Secord subsequently formed a number of shell corporations in Switzerland with related names, including StanTech Services S.A.; Stanford Technology Corporation Services, S.A.; and Scitech, S.A.

In 1985 and 1986, weapons sales to the contras and Iran generated an increasing proportion of STTGI's income; by 1986, the business of STTGI was the Enterprise. Financial management of all Enterprise assets was done in Switzerland by Compagnie de Services Fiduciaire (CSF), controlled by Willard Zucker, an American tax lawyer living in Geneva.²

² Zucker had provided Hakim with financial services since the mid-1970's, when Hakim still lived in Iran. Swiss fiduciaires combine functions that Americans associate with money managers, bankers and lawyers. The services CSF provided to the Enterprise included inter-bank and inter-account transfers, cash disbursements to individuals, expense payments, investments, currency deals, the establishment of financial accounts and shell corporations, and bookkeeping.

Secord and Hakim decided very early -- by mid-1985 at the latest -- to conceal the sources of their income through a variety of schemes. One of their purposes was to avoid the payment of income taxes. In addition to the protection afforded by Switzerland's strict bank-secrecy laws, Zucker at the direction of Secord and Hakim erected a maze of dummy corporations and bank accounts to conceal the true sources and recipients of funds.³

³ The Enterprise's Swiss corporate accounts were: Energy Resources International, S.A.; Lake Resources Inc.; Hyde Park Square Corporation; Albon Values Corporation; Defex, S.A.; Dolmy Business, Inc.; Gulf Marketing Consultants, Ltd.; Stanford Technology Corporation Services, S.A.; Stantech Services, S.A.; Toyco, S.A.; and Udall Research Corporation. The investment accounts were: Richard V. Secord; C. Tea; Albert Hakim; Korel Assets; Scitech Trading Group, Inc.; Lake Resources Inc.; B. Button; and A.H. Sub-accounts #1, #2 and #3.

More than \$47.6 million flowed from the Iran and contra operations into the Swiss Enterprise accounts. The receiving accounts were: Energy Resources International, S.A. (\$11.3 million); Lake Resources Inc. (\$31.5 million); and Hyde Park Square Corporation (\$4.8 million). (See "Enterprise Gross Receipts" chart, next page.)

From its receipts, the Enterprise transferred to a CIA Swiss account a total of \$12.2 million to be paid to the Department of Defense for U.S. weapons sold to Iran. The Enterprise also disbursed \$17.6 million for weapons purchases for the contras and contra-related expenses.

Shortly after the Iran/contra matter became public in late November 1986, the Swiss government at the request of the United States froze the accounts of the Enterprise. At the time, 16 out of 21 corporate and investment accounts of the Enterprise contained a total of \$7.8 million.

The direct U.S. weapons sales to Iran, which began early in 1986, generated by far the largest revenues for the Enterprise.

Unlike the contra sales transactions, the Enterprise did not buy and sell the Iran arms as brokers or for its own account. It acted as agent, a front, for the true owner of the arms, the United States. The sales were incidental to a presidential direction and a presidential objective. Sales and delivery to the ultimate purchaser were at all times subject to the control of the President, acting through Poindexter and North. As agent, the Enterprise was a service organization collecting funds for the United

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States and delivering weapons for the United States.

In 1986 the Enterprise received \$30.3 million from the sale of this U.S. Government property to Iran and for replacement TOW missiles to Israel. Only \$12.2 million was returned to the United States. Direct expenses of the Enterprise were approximately \$2.1 million. Thus, the amount of U.S. Government funds illegally held by the Enterprise as its own was approximately \$16 million.⁴

⁴ The compensation of a proprietary or private "cut-out" for the CIA is usually set in advance. This was not done for Secord. Although technically an agent for the CIA, he operated under the direction of the national security adviser. Under these circumstances, a claim for compensation would have been limited to that which was agreed to by a properly authorized Government officer and which was reasonable for the services rendered -- not half the proceeds.

The Enterprise and the Contra Arms Sales

In late 1984, Secord and Hakim, at North's request, began selling weapons and other lethal supplies to the contras. They acted as brokers, buying weapons from other arms dealers and paying for them with money provided by Calero, whose funds primarily came from secret donations by Saudi Arabia.⁵ Beginning in mid-1985, private and foreign-country donations to the contras were deposited directly into the accounts of the Enterprise to supply the contras, effectively eliminating Calero as a money-handler, with the exception of what remained in the contra account from the Saudi donations.

⁵ The Saudis in mid-1984 began donating \$1 million a month to the contras; in 1985, they doubled that amount. In all, the Saudis gave \$32 million for the purpose of resupplying the contras during the period in which U.S. aid was prohibited by the Boland Amendment.

In 1985 and 1986, there were ten pro-rated profit distributions among members of the Enterprise for the contra weapons sales. The draws from these sales between April 1985 and September 1986 amounted to \$4.579 million. The distributions occurred in seven numbered phases, and three that were unnumbered. (See "Contra Arms Sales, Pro-Rated Profit Distributions" chart, next page.)

Phase I, Contra Arms Sales (November 1984-March 1985)

Secord late in 1984 arranged an initial sale of weapons to the contras through a Canadian firm, TransWorld Arms (TWA), headed by Emanuel Weigensberg. TWA's supplier was a Portuguese weapons firm known as Defex, which arranged for the purchase of a shipload of weapons from the People's Republic of China. Due to unexpected delays, the weapons did not arrive in Central America until April 1985.

The contras paid \$2.3 million for the weapons. According to Enterprise books, total profits on the "Phase I" contra weapons sale amounted to \$720,400. Weigensberg at TWA received one-third of this amount (\$240,133), as did Thomas Green, the Washington, D.C., lawyer who had introduced Secord to TWA. Secord and Hakim split the remaining amount equally, each receiving \$120,066.

Due to delays in delivery of the Phase I shipload of weapons and in order to eliminate Weigensberg and Green from the profit shares, Secord recruited two former colleagues, Clines and Rafael Quintero, to arrange a second purchase of arms. Clines' acquaintance with the owner of Defex (Portugal) enabled Secord to work directly with that company. All profits from this and later arms sales were allocated to Secord, Hakim and Clines. Quintero was paid a monthly salary plus bonuses for successful arms deliveries.

Phase II of the Contra Arms Sales (January-March 1985)

A second order, Phase II, was filled in two plane loads of arms purchased from Defex Portugal: one delivered in January and the second in March 1985. Secord arranged for air transport with the help of Richard Gadd, an Enterprise sub-contractor who had served under Secord in the Air Force. Gadd in turn enlisted a Miami air charter company, Southern Air Transport (SAT), which then subcontracted these flights to a second carrier.

CSF's books show that the contras paid \$1.235 million for the weapons in these two shipments. Total profits were \$310,840. Secord and Hakim each received 40 percent of the profits (or \$124,336 each), and Clines 20 percent (\$62,168).

Phase III of the Contra Arms Sales (March-May 1985)

Secord made plans for a third shipment of arms to the contras in the spring of 1985. The weap-

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ons arrived in Honduras from Portugal in June 1985 on a leased Danish freighter, the Erria, which the Enterprise purchased a year later. CSF's books show that the contras paid \$6.407 million for the arms. Total profits were \$1.5 million; Secord and Hakim got 40 percent each (\$621,936 each), and Clines 20 percent (\$310,966).

Summer 1985: Calero's Purchasing Power Is Removed, the Creation of the ``Defex" Account to Disguise Profits, and the Lake Account

In late June 1985, North and Secord met in Miami with Calero and contra military commander Enrique Bermudez to inform them that private contributors would begin paying the suppliers -- the Enterprise -- directly for weapons, rather than giving money to the contras to buy the weapons themselves. In the future, funds raised from private donors and from third countries were to be deposited into the accounts of the Enterprise, effectively allowing it to corner the contra-arms market.

Shortly after the Miami meeting, Secord and Hakim devised a new system for distribution of the profits. They had the Enterprise's Swiss fiduciaire CSF in July 1985 create a Liberian shell corporation named ``Defex S.A." The new corporation was intentionally given a name similar to that of the Portuguese arms company, Defex, to enable Secord and Hakim to conceal from the contras the high mark-ups of the Enterprise, by having their financial records suggest that the marked-up prices they charged for arms were being paid to Defex, the supplier.

CSF opened the Defex S.A. bank account at Union de Banques Suisse (UBS) in Fribourg, Switzerland, on July 23, 1985. More than \$3 million went through the Defex S.A. bank account between July 1985 and August 1986.

Zucker described the purpose of creating the Defex S.A. account -- to hide the profits -- in a memo to his assistant Roland Farina on July 8, 1985. Zucker told Farina that Defex Portugal, the Lisbon-based arms supplier from which the Enterprise (under the name Energy Resources) purchased the contra weapons, may

. . . seek to approach Energy's customer [the contras] directly, thereby seeking to cut out Energy, and offer similar merchandise at significantly lower prices, explaining to the ultimate customer that Energy has kept for itself a large commission.

To counter this possibility, we have created a LIberian [sic] company with the name DEFEX. S.A. Energy would like us to pay to the account of this Liberian Company ``DEFEX" the spread or commission earned on the transactions . . . In this manner, we can show debit advices on the Credit Suisse account of Energy for transfers made to DEFEX, and those together with all of the other disbursements made, will more or less equal the amounts received by Energy.

. . . The objective, I repeat, is to have in hand sufficient debit advices in Energy so that if any questions are asked whether the entire amount received was expended, we can show payments approximating the amounts received to DEFEX or for expenses relating to the shipments.⁶

6 Memorandum from Zucker to Farina, 7/8/85, AMU 005189.

A further change in the financial structure of the Enterprise in the summer of 1985 helped disguise the money trail further. Payments from the contras for the first series of arms sales went into the Enterprise account named Energy Resources International. In the summer of 1985, after taking control of all contra supply, Secord and Hakim created a new receiving account, Lake Resources. In July and August 1985, they had CSF transfer all funds out of Energy and into Lake, through the Defex S.A. account and an account of a Zucker-controlled company named Audifi S.A. After Lake was formed, all Enterprise receipts were effectively commingled in that account, regardless of their origin.

Phase IV of the Contra Arms Sales (December 1985)

Secord and Hakim arranged a fourth shipment of arms to the contras in December 1985. The weapons were purchased by Calero with funds remaining in his account; transportation and other expenses were covered by funds from Calero and other sources commingled in the Lake account.

The weapons were delivered to El Salvador on December 15, 1985. On December 17, CSF credited Secord's personal account, known as ``Korel Assets," with \$100,800 in profits. The same day, Hakim received \$100,800, and Clines received \$50,400 in cash.

The February 1986 Distribution

On February 6 and 7, 1986, CSF distributed \$165,000 to both Secord's Korel account and the Hakim account.⁷ This distribution was distinctive for several reasons: It did not follow any arms shipment to Central America, Clines did not share in the distribution, and it was not assigned a phase number. Most importantly, the distribution was made literally hours before the Enterprise received the first payment for a \$10 million U.S. weapons shipment to Iran.

⁷ The financial records provided by Hakim to Congress in 1987 inaccurately showed distributions one year apart (one in February 1985 and a second in February 1986), thus concealing the apparent 50-50 split between Secord and Hakim.

Secord and Hakim drew out their Lake Resources account apparently in anticipation of the payment for the Iran shipment, which represented the start of a lucrative new venture for the Enterprise.

Phases V-VII of the Contra Arms Sales (March-June 1986)

Between February 27 and May 23, 1986, the Enterprise paid Defex Portugal about \$860,000 for contra weapons. Weapons were delivered to Central America in March, April and May in three shipments. CSF books show profit distributions between April and June, numbered Phases V

through VII, totaling \$550,471. In addition, there was an unnumbered distribution of \$37,277 on June 20, 1986, resulting from the Phase VII shipment.

The Undelivered Shipment and Distribution (July-September 1986)

In July 1986, the Enterprise paid Defex (Portugal) \$2.6 million and \$500,000 to another dealer, Monzer Al Kassar, for contra weapons. In late July, a shipment of arms left Portugal for Central America aboard the recently acquired Enterprise freighter, the Erria.⁸ According to Thomas Parlow, the Erria's Danish shipping agent, the freighter was carrying arms picked up in Poland and Portugal.⁹

⁸ Clines, Hakim and William Haskell, an associate of North, traveled to Copenhagen in April 1986 to purchase for approximately \$320,000 the Erria, which the Enterprise had leased a year earlier for a weapons shipment to the contras. The ship was purchased by the Enterprise in the name of Dolmy Business Inc., a Panamanian shell company. Thomas Parlow became the Erria's Danish shipping agent. According to Parlow, Hakim would telephone Parlow to direct movement of the ship, and Parlow would communicate those directions to the ship's captain. (Parlow, FBI 302, 3/5/87, pp. 2-3.)

⁹ Ibid., p. 3.

As the Erria was nearing Bermuda, Parlow, acting on instructions from Hakim, ordered it to slow its speed and await further instructions. Clines then directed the ship to work its way slowly back to Portugal.¹⁰ When it arrived in Portugal it could not obtain permission to enter the port. In this mid-to late-August 1986 period, Secord ordered Clines to try to sell the cargo or dump it at sea, according to Parlow. The vessel headed for Spain, where it remained anchored for two weeks.

¹⁰ The ship apparently was ordered back to Europe because it was to be used in an impending U.S.-Israeli venture involving Iran.

As the Erria made its circuitous journey, the CIA through a series of commercial entities arranged to buy the weapons aboard. According to CIA officials, they did not learn the identity of either the owner of the ship or its cargo until January 1987, when a newspaper article named the Secord-Hakim Enterprise as the owner of the ship and the weapons.

The CIA paid \$2.1 million for the arms shipment, including shipping and handling costs.¹¹ According to the private arms dealer who bought the arms for the CIA, he paid \$1.6 million for the weapons. Of that, the Enterprise received \$1.2 million, and the remainder went to Parlow or Defex, who worked together to re-sell the weapons.

¹¹ CIA Inspector General's Report, July 1987, p. 38.

The Enterprise paid \$3.1 million to arms suppliers for this shipment, but sold it to the CIA for only \$1.2 million. In a conventional business, this would have represented an enormous loss. The Enterprise partners, however, split more than \$861,000 in claimed profits on the transaction. Because the money originally used to purchase the weapons came from commingled funds in Enterprise accounts -- including U.S. funds generated by the sale of arms to Iran and funds donated to the contras -- Secord, Hakim and Clines, in effect, allocated to themselves funds that either rightfully belonged to the United States or the contras. In addition, the CIA helped cushion the blow of any loss the Enterprise might have felt by paying for the arms at a reduced price. Independent Counsel obtained no evidence that these arms ever reached the contras.

The Finances of the Contra-Resupply Operation

In addition to selling arms to the contras, the Enterprise in the late summer of 1985 began assembling a full-service resupply operation in Central America that would air-drop weapons and

other goods to contra forces in the field. In December 1985, North instructed Secord to establish an operating fund of \$150,000 for Richard Gadd, whom Secord had hired to manage the resupply operation.¹² In response, the Enterprise wire-transferred \$100,000 to Gadd for start-up costs.¹³

12 Gadd, FBI 302, 7/14/87-7/15/87, p. 13.

13 Ibid.

The resupply operation, known as "Project Democracy," was organized and fully running by the spring of 1986. Enterprise expenditures on this effort flowed principally to four commercial entities:

1. Eagle Aviation Service and Technology (EAST). This company was run by Gadd, who was experienced in Government contracts involving covert activity. EAST received \$550,007 from the Enterprise for contra-related expenses, including work on the construction of a secret airstrip in Costa Rica, payments for communications specialists, a demolitions expert and some pilots and crews.
2. Amalgamated Commercial Enterprises, Inc. (ACE). This Panamanian corporation was set up by Southern Air Transport at Gadd's request to serve as a financial "cut-out" -- or extra layer of concealment for the true owners of the contra-resupply operation -- for billing purposes. After its creation in late 1985, ACE received and disbursed \$1,540,956 in Enterprise funds for the operation. This included payments for two C-7 and one C-123 airplanes, for services provided by Corporate Air Services (see below); and for Southern Air Transport expenses not directly reimbursed by the Swiss Enterprise accounts.
3. Southern Air Transport (SAT). This Miami air-charter company was used by the Enterprise in both the contra and Iran operations. In 1985 and 1986, it received \$1,935,596 for contra-related services, including the purchase of a C-123 cargo plane, repair and maintenance of aircraft, sale of spare parts and the supply of cash advances to the resupply operation in Central America. In addition, the Enterprise paid SAT \$200,000 for a Jetstar aircraft used by Secord and others for contra-related travel.
4. Corporate Air Services (CAS). Gadd employed this Pennsylvania company owned by Edward T. de Garay as the on-site manager of the resupply operation. CAS received from the Enterprise Swiss accounts and through ACE \$457,769 for salaries and other expenses.

Summer-Fall 1986: The Enterprise Tries to Sell Its Contra-Resupply Operation to the CIA

As Congress in the summer of 1986 moved toward lifting the ban on U.S. military aid to the contras and toward final approval of a \$100 million funding bill, the Enterprise envisioned another possible business opportunity: CIA assumption of its resupply operation in Central America. As a result, North, Secord and other members of the Enterprise readied the resupply network for possible sale to the CIA.

Secord in the spring of 1986 asked Robert Dutton, who had replaced Gadd as manager of the resupply operation, to prepare a description of Enterprise assets; North later asked Dutton to add a price list.¹⁴ Dutton's memo describes how extensive the operation had grown by mid-1986.

14 Undated Dutton outline of the resupply operation; attached list of assets and expenditures dated 7/21/86, 00001-15.

In describing the organizational structure, Dutton stated that "Benefactor Company," or "B.C. Washington" had operational control of all assets in support of the resupply operation, or "Project Democracy." He stated that all contracts and payments went through Amalgamated Commercial

Enterprises (ACE), which acted as the broker for SAT in Miami, which provided aircraft and maintenance and other support.

Dutton valued the resupply operation's assets at \$4.089 million, which included, among other items, two C-123 cargo jets; two C-7 planes; a Maule aircraft; 15 a secret Santa Elena, Costa Rica, airstrip; the Santa Elena property; spare parts; and munitions and supplies.

15 In 1985 and 1986, the Enterprise purchased four Maule aircraft, but apparently was offering only one as part of its resupply-operation package.

Dutton described Project Democracy's operating locations: Washington, "the hub for all operational project information;" "Cincinnati," the code name for Ilopango air base in El Salvador, where aircraft were based and four houses maintained in the city for about 18 employees; "The Farm," the air base at Aguacate, Honduras, used as a "launch and recovery site for support missions;" "The Plantation," the secret Santa Elena, Costa Rica, airstrip for refueling and emergency landing; and "Maintenance Support Miami," where a support crew worked closely with SAT for procurement and delivery of required items. Dutton listed 25 salaried employees of the resupply operation, including managers, flight crews and others.

Dutton proposed two options for transferring the assets of the resupply operation to the CIA: (1) sale of the assets for less than the estimated value of \$4 million; or (2) leasing the assets to the CIA for \$311,500 per month plus add-ons. Dutton stated that the first option was preferable.

But the CIA was not eager to associate itself with the Enterprise resupply network, whose illicit operation had been concealed from Congress despite repeated inquiries. North in a computer message to Poindexter on July 15, 1986, complained about the CIA's reluctance to purchase the resupply network's assets: "It would simply be ludicrous for this to simply disappear just because CIA does not want to be 'tainted' with picking up the assets and then have them spend \$8-10M of the \$100M to replace it -- weeks or months later." 16 In July 1986, North, at a meeting with Abrams and Fiers, described the Enterprise assets in Central America.

16 PROFs Note from North to Poindexter, 7/15/86, AKW 018917.

North asked Poindexter to speak to Casey about the matter; Poindexter agreed to talk to Casey, adding that he (Poindexter) had told CIA Deputy Director Robert M. Gates that "the private effort should be phased out." 17 According to Alan Fiers, chief of the CIA's Central American task force in 1986, Fiers advised against CIA assumption of the operation's assets. 18

17 PROFs Note from Poindexter to North, 7/26/86, AKW 021732. Poindexter told Congress he believes he told Gates "that these assets are available and you ought to look at them, or something to that effect." (Poindexter, Select Committees Deposition, 5/2/87, pp. 208-9.)

18 Fiers, Grand Jury, 8/14/91, p. 77.

Dismantling the Operation

The Nicaraguan shootdown of the contra-resupply plane carrying American survivor Eugene Hasenfus on October 5, 1986, settled irrevocably the question of CIA assumption of Enterprise assets. With a \$100 million contra-funding bill awaiting final approval in Congress, the agency could not associate itself in any way with the Enterprise operation. CIA officials had publicly and in closed congressional testimony disavowed any involvement with it.

ral Juan Rafael Bustillo, the Salvadoran military chief at Ilopango air base, ordered the resupply crews out of the country. The planes were flown to Aguacate air base and the Hondurans later took possession of them. 19 Luis Posada, whose alias was Ramon Medina and who handled expenses for

the pilots and crews, cleaned out the houses where resupply personnel had stayed, retrieved documents and delivered them to Quintero, who then gave them to Dutton.²⁰ Posada also terminated the operation's leases, paid the bills and disposed of radio equipment, cars and other goods.²¹ The Salvadoran Air Force took possession of the operation's warehouse of parts and supplies at Ilopango.²²

¹⁹ Ibid., p. 5.

²⁰ Dutton, who received immunity from prosecution, provided these documents to OIC.

²¹ Posada, FBI 302, 2/3/92, pp.25-26.

²² Ibid., p. 26.

North's notebooks reflect a series of conversations with Secord and others about obtaining a lawyer for Hasenfus, who was imprisoned and facing trial in Nicaragua, as well as discussions about death benefits and funeral arrangements for the pilots killed in the crash.²³ William Haskell, North's friend who performed a variety of Enterprise-related duties on his behalf, and resupply manager Edward de Garay went to Panama to obtain a lawyer for Hasenfus, who was imprisoned and facing trial in Nicaragua; their mission was not a success.²⁴

²³ North's Notes, dated October 8-10, 13-15, 1986, AMX001574-93. At Secord and Hakim's request, Zucker hired a Swiss lawyer for Hasenfus. Zucker said the Swiss lawyer was unable to contact Nicaraguan officials and did not continue with the case. (Zucker, FBI 302, 5/16-18/88, pp. 4-5.)

²⁴ Gadd, FBI 302, 7/6/87-7/7/87, pp. 22-23; Haskell, FBI 302, 7/6/87, p. 11.

In December 1986, John Piowaty, an air-support manager for the resupply operation, at Dutton's request carried \$6,000 in cash from Southern Air Transport in Miami to Sally Hasenfus, Eugene Hasenfus's wife.²⁵ This amount represented two months' salary for Hasenfus, who was released from jail and allowed to return to the United States in December 1986.

²⁵ Piowaty, FBI 302, 6/22/87.

North testified that Abrams asked him to "raise the money to pay" for the retrieval of the bodies of pilots Wallace Sawyer and William Cooper from Nicaragua.²⁶ According to Piowaty, Dutton told him that the families of the pilots who were killed in the shutdown would each receive \$60,000 in benefits. The families, however, never received such payments.²⁷ The Enterprise did arrange to have delivered \$3,000 in cash to a Magnolia, Arkansas, funeral home for Sawyer's burial costs.²⁸

²⁶ North, Select Committees Testimony, 7/8/87, pp. 167-68.

²⁷ Piowaty, FBI 302, 6/22/87, p. 4.

²⁸ McAlister, FBI 302, 5/4/87, pp. 1-3. Independent Counsel obtained no evidence indicating that a similar payment was made for Cooper's funeral.

The Enterprise attempted to establish a defense fund for Hasenfus from allocations intended for the contras. In early October 1986, before the shutdown, Secord and Hakim at North's request had three checks issued to pay outstanding contra grocery bills. These checks were made payable to Aquiles Marin, a contra representative, and sent to Rafael Quintero in Miami. Only one check for \$75,000 went to the contras. Following the shutdown, Secord told Quintero to set aside a second \$75,000 check and a third \$50,000 check to establish a defense fund. Quintero endorsed the \$75,000 check, forging Marin's signature, and mailed it with the unendorsed \$50,000 check to the Banque

Intercommerciale de Gestion in the Bahamas; Quintero instructed the bank to use the \$75,000 check for a defense fund and to hold the \$50,000 check for him (Quintero).²⁹

29 Quintero, FBI 302, 9/1/87.

The Enterprise and the Sale of U.S. Arms to Iran

The 1985 Israeli Sales

Private arms dealers in 1984 began suggesting to U.S. officials that if weapons were sold to Iran, Iranians could gain the release of Americans held hostage by terrorists in Lebanon. Manucher Ghorbanifar, an Iranian exile and former CIA informant who had been discredited by the agency as a fabricator, was a driving force behind these proposals.

By August 1985, Israel had obtained, through National Security Adviser Robert C. McFarlane, President Reagan's approval to sell U.S. arms to Iran and to replenish Israeli weapons stocks.

In 1985, there were two Israeli sales of U.S. weapons to Iran: 504 TOW missiles in August and September 1985, and 18 HAWK missiles in November 1985. The Israelis relied on international financier Adnan Khashoggi to raise "bridge financing" for the deals, because the Iranians would not pay for the weapons until they were delivered, and Israel would not ship the weapons before Iran paid for them.

Although no U.S. funds were involved in the November 1985 HAWKs transaction, the Enterprise derived a windfall. As described elsewhere in this report, the HAWK shipment encountered logistical difficulties, resulting in the direct involvement of North and Secord. North told the Israelis to transfer \$1 million to the Enterprise's Lake Resources account in Geneva to pay for airlifting the missiles to Iran; they did so on November 20, 1985.³⁰ The Israelis thought the million-dollar request was reasonable based on an anticipated four flights to ship 80 HAWKs at \$250,000 per flight.³¹

³⁰ Israeli Financial Chronology, 4/26/87, AOW 0000182, as released in Select Committees Report, p. 179.

³¹ Ibid.

After the first 18 HAWKs were delivered to Iran, the Iranians rejected them. The rest of the shipment was cancelled. The Enterprise had spent only \$127,700, on the single shipment. The difference -- approximately \$870,000 -- remained in the Lake Resources account commingled with funds from other sources; it was used for aid to the contras and other purposes.³²

³² Secord testified before Congress that the Israelis did not ask for their money back. He said he discussed the matter with North in December 1986, and North told him they could use the money "for whatever purpose we wanted. We actually expended it on the Contra project." (Secord, Select Committees Testimony, 5/5/87, p. 95.) Because of the commingling of funds in the Lake Resources account, however, it is not possible to directly tie the Israeli deposit to an expenditure of funds on the contras.

Direct U.S. Arms Sales to Iran: The Enterprise as U.S. Agent

In January 1986, the Reagan Administration decided to sell weapons directly from U.S. stocks to Iran, eliminating Israel as an intermediary and employing Secord as an agent to make the sales and transport the arms, masking official U.S. involvement. President Reagan authorized the direct sales in a January 17, 1986, covert-action Finding. Under the Finding, Secord, acting as an agent of the CIA, would sell arms to brokers representing the Iranians, who then would sell them to Iran. Secord would obtain payment in advance from the Iranians and deposit in a CIA account the amount the

CIA was to pay the Department of Defense for the weapons. The CIA would purchase the weapons from the Department of Defense at cost under the Economy Act; Secord would deliver them to Iran.

33 The Economy Act permitted sales at cost between Government agencies.

Ghorbanifar, as broker for Iran, borrowed funds for the weapons payments from Khashoggi, who loaned millions of dollars to Ghorbanifar in "bridge financing" for the deals. Ghorbanifar repaid Khashoggi with a 20 percent commission after being paid by the Iranians.

The Reagan Administration's 1986 decision to sell weapons directly to Iran eliminated the Israeli arms dealers from the initiative. Amiram Nir, an Israeli counter-terrorism official, became the Israeli representative in the negotiations. At North's request, he gave Ghorbanifar the number of the Lake Resources account, into which deposits for the arms purchases were to be made.³⁴

34 Allen, Grand Jury, 1/4/88, pp. 46-47; Secord, Grand Jury, 5/14/87, p. 339.

February 1986: 1,000 TOW Missiles

In January 1986, North and Secord negotiated on behalf of the United States the sale of 4,000 TOW missiles to Iran. Ghorbanifar agreed to pay \$10,000 for each TOW. The terms and conditions negotiated by North and Secord required an initial sale of 1,000 TOW missiles for \$10 million, and subsequent sales of an additional 3,000 TOW missiles for \$30 million. North falsely informed DoD and the CIA that Secord would receive only \$6,000 per TOW, or a total of \$6 million. The Defense Department established its price as \$3,700 per TOW missile for its sale to the CIA and the price to be paid to the CIA by Secord.

Between February 7 and February 18, 1986, Khashoggi deposited \$10 million into the Enterprise's Lake Resources account.³⁵ On February 10-11, 1986, \$3.7 million was transferred from Lake to a CIA account for the weapons. Between February 17 and 27, 1986, 1,000 TOWs were shipped to Iran. In addition, 17 HAWK missiles from the failed November 1985 shipment were returned from Iran to Israel.

35 Khashoggi transferred \$5 million from his own Bank of Credit and Commerce account in Monte Carlo to Lake Resources, and he raised the remaining \$5 million from two investors: He borrowed \$2.5 million from a wealthy woman in Monte Carlo and \$2.5 million from Galliot Lines S.A., owned by Syrian banker Oussama Lababidi. (Khashoggi, FBI 302, 5/8/87, p. 8.)

The Enterprise's direct expenses in connection with the transportation of the weapons were about \$716,000, leaving a surplus of \$5.6 million. The plan to sell 3,000 more TOW missiles on the same terms to Iran did not materialize.³⁶

36 As originally contemplated by North and Secord, the Enterprise would have drawn off roughly \$22 million after expenses, if 4,000 TOWs had been sold. This calculation is arrived at by quadrupling the surplus of \$5.6 million on the 1,000 TOW deal.

Iran paid higher prices for the weapons than those already inflated by the Enterprise, because Ghorbanifar added large commissions of his own. Khashoggi said his commission was split with Ghorbanifar; Roy Furmark, who had introduced Khashoggi to Ghorbanifar; and Triad International Marketing, a Khashoggi business.³⁷

37 Ibid., p. 11. Ghorbanifar described a similar split. (Ghorbanifar, OIC Deposition, 12/9/87, p. 142.)

Further complicating the matter, Israel had expected to pay for the replacement of TOWs it sent to Iran in 1985 from Enterprise mark-ups on the 1,000 TOWs sold to Iran in February 1986. According

to the Israelis, however, North claimed the proceeds were less than anticipated and would not cover the cost of the replenishment.³⁸

38 Israeli Financial Chronology, 4/26/87, p. 20, AOW 0000190, as released in Select Committees Report, p. 224.

May-August 1986: HAWK Parts to Iran; Israeli TOWs Replenished

In the spring of 1986, North negotiated on behalf of the United States a sale of 240 HAWK missile spare parts to Iran. He also negotiated with representatives of Israel for the purchase of 508 U.S.-made TOW missiles to replace those shipped by Israel in August and September of 1985. In combination, these transactions resulted in \$16.685 million being deposited by Iranian and Israeli representatives into the Enterprise's Lake Resources account in Geneva.

The CIA charged the Enterprise \$3,469 for each of the 508 TOW missiles sold for replenishment to the Israelis, plus shipping and handling costs. This cost was passed on to the Israelis. For the HAWK spare parts for Iran, the CIA charged \$4.337 million, plus shipping and handling. North, however, had multiplied this true cost by a factor of 3.7 in setting the price to be paid by Ghorbanifar.

On May 14-16, 1986, a total of \$15 million in bridge financing was deposited into the Lake Resources account by Khashoggi, acting on behalf of Ghorbanifar. On May 15-16, 1986, Israel deposited a total of \$1.685 million in the Lake account.³⁹ Of the total \$16.685 million deposited, only \$6.5 million was paid to the United States for the Iranian and Israeli weapons purchases. The expenses involved in these shipments were about \$1 million, resulting in a surplus of \$9.2 million for the Enterprise.

39 Although the Israelis expected the replenishment to be paid from mark-ups on the Iran weapons sales, they finally agreed to pay this amount after Nir was informed that sufficient funds were not being generated. (Israeli Financial Chronology, 4/26/87, pp. 26-67, AOW 0000196-97, as released in Select Committees Report, pp. 224-341.)

Khashoggi and Ghorbanifar Encounter Financial Problems; a "Second Channel" into Iran Is Pursued

In raising the \$15 million bridge financing for the HAWKs spare parts, Khashoggi in April 1986 asked British entrepreneur Tiny Rowlands to invest. After Rowlands declined, Khashoggi turned to Oussama Lababidi who, using the name "Kremdale Corporation," put up \$5 million. The remaining \$10 million came from Vertex International in the Cayman Islands, backed by investors Ernie Walter Miller and Donald Fraser of Canada. Khashoggi said he created a company "Trivert International," to handle the Vertex loan.⁴⁰

40 Khashoggi, FBI 302, 5/8/87, p. 10, and 11/4/87, p. 5. According to bank records obtained by Independent Counsel, on May 14, 1986, a \$10 million payment was made into Lake Resources by Trivert International by order of W.E. Miller. On May 16, 1986, Lake Resources received \$5 million from Garnet Overseas at BCCI; Garnet received the funds from Khashoggi's account and Khashoggi's account received the funds from Ray Trading. Because Ghorbanifar only repaid \$8 million, the investors lost \$7 million of their initial investment. Ghorbanifar received from Iran only \$4 million; it is unclear where he obtained the other \$4 million to partially repay the investors.

In June 1986, the Iranians obtained a U.S. price list for the HAWK spare parts. After seeing the list, they refused to pay the radically inflated amount -- \$24 million -- Ghorbanifar had charged them. As a result, Ghorbanifar paid back Khashoggi a total of only \$8.1 million on the \$15 million bridge-financing loan, which with the 20-percent bridge-financing commission required payment to Khashoggi of \$18 million.

While these financial disputes were brewing, the Reagan Administration decided to pursue a "second channel" into the Iranian parliament, cutting out Ghorbanifar, his Iranian contact and Nir. When Poindexter told Nir about the second channel in September 1986, Nir responded that making a switch would require paying off Ghorbanifar's \$10 million debt to the financiers.⁴¹

⁴¹ Allen, Grand Jury, 8/9/91, pp. 122-25.

October-November 1986: 500 TOWs Sold; Hakim Seeks More

In October 1986, North and Secord on behalf of the United States negotiated a sale of 500 TOW missiles to Iran. The United States charged \$3,469 per TOW missile, plus shipping and handling, while the Enterprise charged the Iranians \$7,200 per TOW. The Iranians, no longer acting through Ghorbanifar but through a "second channel," paid \$3.6 million, deposited on October 29, 1986, into the Enterprise account known as Hyde Park Square Corporation. The Enterprise paid the CIA \$2.037 million for the TOWs. Direct expenses incurred by the Enterprise came to less than \$200,000. The Enterprise cleared \$1.463 million as a result.

In October 1986, Hakim in meetings with Iranian representatives took on the role of arms dealer and hostage negotiator. He proposed a nine-point plan for the phased release of the American hostages, based on further arms shipments and other conditions to be met by the United States.⁴² These negotiations did not result in further arms sales.

⁴² In these meetings, Hakim was continuing a process begun by North, who, on behalf of President Reagan, presented a seven-point plan for hostage release.

Hakim told Independent Counsel that he had expected Iran to invest \$50 million in future arms sales.⁴³

⁴³ Hakim, FBI 302, 2/20/91, p. 14. Hakim told Congress that had the United States renewed ties to Iran, he and Secord expected a 3 percent share of an expected \$15 billion-a-year arms market. (Hakim, Select Committees Deposition, 5/23/87, pp. 256, 263-64.)

Fall 1986, the Arms Sales Unravel: Exposure and Cover-Up

In August 1986, Ghorbanifar complained to Furmark that the mark-ups charged by the Enterprise were going to the contras or Afghan rebels. Ghorbanifar told Furmark: "No sooner than we pay money, it probably is going down south." ⁴⁴

⁴⁴ Furmark, FBI 302, 2/22/88, p. 10.

Khashoggi also was upset about being cut out of the U.S. arms sales by the establishment of the "second channel" into Iran. He said he devised a "ploy" to get CIA Director Casey to repay the \$9.9 million he felt he was owed for the HAWK-parts investment. Aware of Furmark's past ties to Casey, Khashoggi said he told Furmark on October 1, 1986, that the bridge loan from the HAWKs parts deal had not been repaid and that Canadian investors (Miller and Fraser with a \$10 million participation) might sue, publicly exposing the U.S. arms sales to Iran.⁴⁵

⁴⁵ Khashoggi, FBI 302, 5/8/87, p. 11.

Fraser said he did not threaten to sue, and it was likely that Miller didn't either (Fraser, Select Committees Deposition, 4/29/87, pp. 58-59). Khashoggi said he sold stocks in April 1987 to repay Fraser and Miller. (Khashoggi, FBI 302, 5/8/87, p. 11.)

Before Furmark approached Casey with this information, there had been other attempts to warn the Reagan Administration. Charles Allen of the CIA learned of Ghorbanifar's financial difficulties in August 1986; he knew previously about the mark-up in arms sales prices from intelligence reports;

he had suspected that the extra funds were used for an Iran/contra diversion. In August, Allen warned his superior, CIA Director of Intelligence Richard Kerr. Kerr warned Deputy Director for Central Intelligence Robert Gates.⁴⁶ By early October, Allen warned Casey.

⁴⁶ See Gates chapter.

Ghorbanifar complained to his original U.S. sponsor, Michael Ledeen, an NSC consultant. Ledeen testified that Ghorbanifar told him that Canadian investors were owed \$10 million from the Iran deals and might go public; Ledeen at some time told North and Casey, but the date is unclear.⁴⁷ Nir also in mid-September warned CIA and NSC officials that Ghorbanifar needed \$10 million or his creditors might expose the arms sales.⁴⁸

⁴⁷ Ledeen, FBI 302, 12/17/86, p. 13. Also, Ledeen, Grand Jury, 9/30/87, pp. 57-60, 64-65, 114-16.

⁴⁸ Allen, Grand Jury, 1/4/88, pp. 22-26. Members of the Enterprise, meanwhile, were apparently trying to shut down the Ghorbanifar-Khashoggi operation through other means. On September 2, 1986, Hakim informed Allen that Ghorbanifar and "his banker" were involved in a planned shipment of 1,250 TOWs to Iran. Allen alerted Customs and the FBI, which reported back that there was no evidence to substantiate the claim. (Ibid., p. 11.)

North was aware that he would have to pay Ghorbanifar some amount of money to eliminate him from the deals. In a September 10, 1986, memorandum to Casey, Allen relayed that North had told him that Poindexter believed that "to cut Ghorbanifar out, Ollie will have to raise a minimum of \$4 million." ⁴⁹

⁴⁹ Ibid., p. 20.

Furmark met with Casey in Washington on October 7, 1986, to warn of possible exposure of the Iran arms sales. Furmark said he told Casey about Khashoggi's financial problems and mentioned the Lake Resources account, which Casey said he believed was an Israeli account. Furmark did not, at this meeting, mention Ghorbanifar's belief that the money had gone to the contras.⁵⁰ Casey told Furmark that CIA officials would get in touch with him for additional information.

⁵⁰ Furmark, FBI 302, 2/22/88, p. 10.

CIA officers Allen and George Cave then met with Furmark. On October 22, Furmark told them that Iran proceeds possibly were being diverted to the contras. In early November 1986, Furmark met with Allen and gave him Ghorbanifar's bank account number. On November 24, 1986, Furmark said he met again with Casey and showed him records indicating that Khashoggi had put up \$25 million for the arms sales, and that \$10 million was owed.

The Iran/Contra Diversion

Because of the commingling of Enterprise funds, it was not possible to determine precisely how much money was diverted from the Iran arms sales proceeds to the contras. After direct U.S. sales of arms to Iran began in February 1986, the amount of proceeds diverted to the contras that could have been proved at trial was \$3.6 million. It probably was at least \$1.1 million more.⁵¹

⁵¹ The \$3.6 million diversion estimate does not include expenditures OIC could not provide evidence for at trial but were, in fact, contra-related, including: the purchase of a \$200,000 Jetstar by the Enterprise for contra-related travel; a \$500,000 weapons purchase from Monzer Al Kassar, who was not available to testify; and about \$535,000 that was used to purchase, operate and insure the Danish freighter, the Erria, which was not used exclusively for contra operations.

Independent Counsel arrived at the diversion figure of \$3.6 million by calculating the Enterprise's total contra-related expenses following the first direct U.S. shipment of arms to Iran in February

1986, less the amount of funds in Enterprise accounts specifically deposited on behalf of the contras. The Enterprise's contra-related expenses after February were conservatively estimated at \$6.7 million. The amount deposited for the contras was \$3.1 million. Thus, the amount that was clearly diverted from the arms sales was \$3.6 million.

North, in his testimony, attributed to Nir and Ghorbanifar the idea for a diversion of arms sales funds to the contras. In the Poindexter trial, although uncertain, he fixed the date in December 1985 or January or February of 1986.⁵² As early as November 14, 1985, North's notebooks show that he discussed with Nir a plan to obtain the release of the hostages by payments to certain Middle Eastern factions. The questions they discussed included: "How to pay for; how to raise \$," and a possible solution was to set up a "joint" Israeli-U.S. "covert op." According to the Israelis, North apparently told Israeli defense officials in a meeting in New York on December 6, 1985, that he intended to divert funds from the arms sales to the contras.⁵³

⁵² North, Poindexter Trial Testimony, 3/13/90, p. 1092.

⁵³ Israeli Historical Chronology, 7/29/87, pp. 55-56, AOW 000068-69, as released in Select Committees Report, p. 197.

Secord said North pressed him to send funds from the Iran operation to the contra operation.⁵⁴ Secord claimed he did not view this as a diversion, but simply as shifting funds from one of his operations to another.

⁵⁴ Secord, FBI 302, 3/12/88, p. 4.

The diversion to the contras was only one dimension of a much larger theft of Government funds generated by the Iran and Israeli-replenishment transactions. The Enterprise in 1986 illegally diverted for its own purposes \$16 million generated by the sale of U.S. property to Iran.

[In millions]*** BOX HEAD *** ** BOX HEAD ***

Amount Charged for U.S. Weapons to Iran and Israel.....\$30.3

Amount Paid to the U.S.....12.2

Enterprise Expenses.....2.1

Funds Owed to U.S.....\$16

The funds from inflated arms prices went into the network of Swiss accounts controlled by Hakim, Secord and North. Funds from all sources were commingled, laundered, and disbursed to a variety of individuals and entities. Although approximately \$16 million was withheld, only \$7.8 million remained in the Enterprise Swiss accounts when they were frozen in December 1986.⁵⁵

⁵⁵ Sixteen of 21 Swiss Enterprise accounts had funds remaining in them when they were frozen in December 1986. The total at that time was \$7,814,899.24. Since then, at least \$3 million in interest has accrued. The accounts and balances at the time the funds were frozen were:

Albon Values Corp.

\$5,494.16

Defex S.A.

\$88,662.50

Dolmy Business Inc.

\$6,508.85

Gulf Marketing Consultants Inc.

\$235.36

Hyde Park Square Corp.

\$1,136,815.47

Lake Resources Inc.

\$430.60

Stanford Technology Corp.

\$13,955.99

Stantech Services S.A.

\$15,806.48

Toyco S.A.

\$25.73

B. Button

\$211,990.71

Hakim Albert

\$259,593.46

AH/Subaccount 1

\$2,129,151.51

AH/Subaccount 2

\$2,051,909.30

AH/Subaccount 3

\$157,146.12

Korel Assets

\$1,547,035.75

Scitech Trading Group Inc.

\$190,137.25m,s

Total

\$7,814,899.24

The Swiss Enterprise accounts that had no funds in them in December 1986 were: Energy Resources International S.A., Udall Research Corp., C. Tea investment account, Lake Resources investment account, and Richard V. Secord investment account.

Enterprise Benefits to Secord and Hakim

Secord and Hakim benefited substantially as a result of their involvement in the Iran and contra operations. Secord in 1985 and 1986 received \$2 million in direct personal benefits from the Enterprise, and more than \$1 million in cash payments. Hakim in 1985 and 1986 received \$2.06 million in direct benefits, and more than \$550,000 in cash.

The benefits fell into three broad categories: pro-rated profit distributions on contra weapons sales, for which each received \$1,557,377; money from Enterprise accounts that went into Secord-Hakim business ventures, amounting to \$520,000 each; 56 and funds withdrawn from Enterprise accounts for personal use, including repairs to a Secord plane amounting to \$5,729, payments of \$20,000 each by Secord and Hakim for a business venture in the Middle East, and \$3,000 each for investment in a catfish business venture.

56 Secord and Hakim apparently lost substantial sums in each of these business ventures, all of which occurred in 1986. None of the money was ever returned to the Swiss Enterprise accounts from which it came.

Secord and Hakim in 1986 shared jointly in the following investments:

Tri-American Arms

\$150,000

Quinnault Timber

\$130,000

Forways

\$760,000m,s

Total

\$1,040,000

Tri-American Arms was a Colorado arms-manufacturing venture; Quinnault Timber involved the development of timberland in Washington state; and the Forways investment was in a New Jersey military parts manufacturing concern partly owned by the Enterprise's money manager, Willard Zucker.

Cash payments to Secord in 1985 and 1986 totaled approximately \$1,037,000. About \$14,000 could be traced to the payment of business expenses, and nearly \$20,000 was cash Secord withdrew from

his profit account. The remaining \$1.003 million in cash payments to Secord were for unknown purposes.

Hakim in 1985 and 1986 received \$550,000 in cash from the Enterprise. Hakim spent about \$32,000 of this on business expenses, and about \$39,000 were withdrawals from his profit account. Hakim received approximately \$478,500 in cash for unknown purposes.

In addition, the Enterprise transferred at least \$696,000 in 1985 and 1986 from its foreign accounts into Secord and Hakim's domestic company, STTGI. Secord and Hakim went to great lengths to conceal this income -- using false loan documents and invoices -- to suggest that the transfer of cash to STTGI was a loan.

Secord and Hakim took other steps to keep their profits hidden. As described earlier, in mid-1985 they created a receiving account -- Defex, S.A. -- with virtually the same name as a Portuguese weapons supplier to create the false impression that they were paying almost the same price for contra weapons as they were charging the contras. Also in mid-1985, Secord instructed Zucker to remove Secord's name from all Enterprise accounts and to transfer his profits into a code-named account. He closed the ``Richard V. Secord" investment account and opened an investment account named ``Korel Assets." In December 1986, Secord attempted to get Zucker to agree to a false story that Secord had foresworn his profits.

Finally, Secord and Hakim did succeed to some extent in disguising their benefits. Hakim provided the Select Committees in 1987 a set of financial records that did not identify payments to himself, Clines and Secord. These financial records were recorded in what was known as the ``Hakim Ledger," pursuant to Hakim's instruction to Zucker in 1986 to collapse the individual profit accounts. OIC reconstructed the profit accounts with the help of a former assistant to Zucker, Roland Farina, who had coded the receipts to show the profit account to which they would have been allocable had they not been collapsed.